

The background of the cover is a faded, light-colored photograph of a modern brick building with large windows and a prominent entrance. The building is identified by a sign as the Tyler Research Center. The overall tone is professional and academic.

Pittsburg State University Annual Financial Report

For the Fiscal Year ended June 30, 2008
Pittsburg, Kansas

PITTSBURG STATE UNIVERSITY

Annual Financial Report
For the Fiscal Year Ended June 30, 2008

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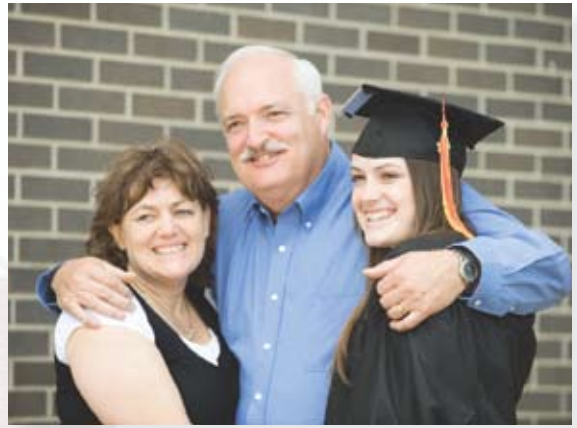
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Proud families of PSU graduates take the opportunity to pose before commencement ceremonies. More than 1,500 students were eligible to participate in Winter 2007 and Spring 2008 commencement exercises.



The 2008 Outstanding Senior Woman, Ashley Lopez, Pittsburg, and Outstanding Senior Man, Nicholas Dellasega, also from Pittsburg, are shown with President Tom Bryant at the Spring 2008 Commencement exercises.



Graduates of the PSU ROTC program are commissioned each spring as Second Lieutenants in the U.S. Army during a ceremony held in the PSU Veterans Memorial Amphitheater.

Pittsburg State University

Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial performance of Pittsburg State University (the "University") based on currently known facts, decisions and conditions and is designed to assist readers in understanding the accompanying financial statements. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles. During 2002-2003, Pittsburg State University implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and local Governments," and Statement No. 35, "Basic Financial Statements – and Management's Discussion and Analysis for Public Colleges and Universities." This discussion – along with the financial statements and related footnote disclosures – has been prepared by management and should be read in conjunction with the statements and footnotes. The financial statements, footnotes, and this discussion are the responsibility of management.

USING THIS ANNUAL REPORT

This report consists of the three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The notes to the financial statements present additional information to support the financial statements. Their purpose is to clarify and expand on the information in the financial statements. As noted above, the University implemented new accounting standards issued by GASB during fiscal year 2003. These new standards changed the focus of our financial statements to a comprehensive one-look at the University as a whole (opposed to the traditional presentation of fund groups). Other significant changes to the financial statements include:

- GASB Statements No. 35 categorizes revenues into operating and non-operating. Significant recurring sources of revenue are now shown as non-operating, including state appropriations and investment income. Public universities depend heavily on these revenues to fund their programs and services. As a result, the University will always report a loss from operating activities.
- Student tuition and fees are now reported net of scholarships funded from University resources. Prior to fiscal year 2003, all scholarships were reported as a scholarship expense.
- GASB Statement No. 35 requires the University to report accumulated depreciation on its capital assets.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the assets, liabilities, and net assets of the University at a point in time (at the end of the fiscal year). Its purpose is to present a financial snapshot of the University. The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Under the accrual basis of accounting all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Within the Statement of Net Assets, assets and liabilities are further classified as current or non-current. Current classification distinguishes those assets that are highly liquid and available for immediate and unrestricted use by the University and those liabilities likely to be settled in the next 12 months.

Net assets are divided into three categories:

1. **Invested in capital assets, net of debt**, indicates the university's equity in property, plant, and equipment owned by the University.
2. **Restricted net assets** are further divided into two subcategories, non-expendable and expendable. The corpus of non-expendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities who have placed time or purposes restrictions on the use of the assets.
3. **Unrestricted net assets** are available to the University for any lawful purpose of the institution.

Total assets at June 30, 2008 were \$123,950,115, an increase of \$9,133,538 (7.95%) compared to \$114,816,577 at June 30, 2007. Capital assets, net of depreciation, comprised 75%, or \$93,321,788 of the total assets.

Total liabilities were \$29,845,524 at June 30, 2008, an increase of \$464,073 (1.58%) compared to \$29,381,451 at June 30, 2007. Noncurrent liabilities comprised 60%, or \$17,924,548 of the liabilities. The June 30, 2007 financial statements (Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows) have been restated to reflect an accounting change for the Kansas Army National Guard Recreation Center debt service liability. The accounting change restates the Liabilities and Net Assets sections of the Statement of Net Assets, notably Accounts Payable, Revenue Bonds Payable, and Invested in Capital Assets, Net of Related Debt. See Notes to Financial Statements, Note 16 – Prior Year Adjustment.

Total net assets at June 30, 2008 were \$94,104,591, an \$8,669,464 increase over the prior year of \$85,435,127 or a 10.2% increase in net assets. The breakout of net assets is shown below:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Capital assets, net of related debt	\$ 74,196,173	\$ 66,156,347
Restricted net assets	10,439,294	9,488,142
Unrestricted net assets	<u>9,469,124</u>	<u>9,790,638</u>
Total net assets	<u>\$ 94,104,591</u>	<u>\$ 85,435,127</u>

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses and Changes in Net Assets presents the total revenues earned and expenses incurred by the University for operating, non-operating and other related activities during a period of time. Its purpose is to assess the University's operating results.

Revenues

Operating revenues at the University as of June 30, 2008 increased by 7.6% over the previous fiscal year. The following is a brief summary of the significant changes:

- Student tuition and fee revenues, after scholarship allowances, were \$24.2 million in 2008, compared to \$21.6 million in 2007, a net increase of 12.3%. This is the result of a tuition rate increase of 6.5% for the 2007-2008 academic year.
- State and local grants and contracts increased 10.4% from \$1.53 million in 2007 to \$1.69 million in 2008. The increase is attributed to increased sponsorships via the Kansas Board of Regents Competitive Teacher Education grant, Kansas Small Business Development Center grant (KSBDC), Regents Supplemental grant, and KRPS State of Kansas Public Broadcasting Council grant (KPBC). However, these increases were partially offset by the Kansas Board of Regents Nursing Initiative – Equipment and Faculty grant received in 2007.
- Nongovernmental grants and contracts decreased 35.3% or \$476,344 from \$1,349,784 in 2007 to \$873,440 in 2008. This decrease is attributed to a decline in Cargill Research and Development Grants.
- Auxiliary enterprise revenues, increased from \$9.98 million to \$10.4 million in 2008. Auxiliary enterprises include University Housing, Parking Services, Student Health Center, Athletics, and Student Publications.

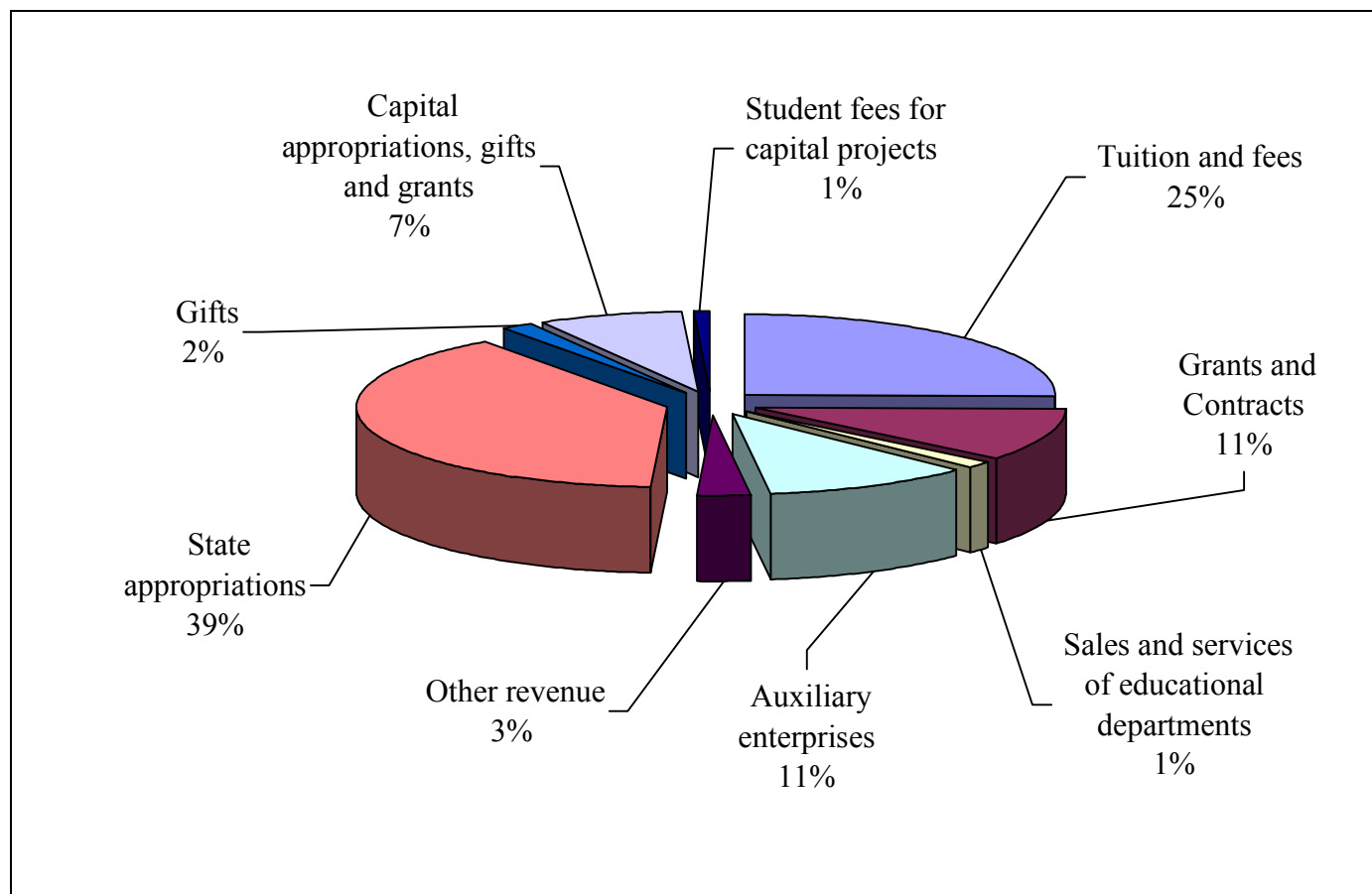
Total non-operating revenues were up 7.2% from the prior year from \$38.5 million to \$41.3 million. The following is a brief summary of the significant changes:

- State appropriations, the largest single source of revenue at the University, increased from \$36 million to \$37.8 million, or 5%.
- Investment income increased from \$386,510 in 2007 to \$990,844 in 2008. This 156% increase is primarily due to deferred maintenance interest totaling \$702,270.
- Other nonoperating revenues increased 170.3% from \$86,800 in 2007 to \$234,654 in 2008. The Kansas Army National Guard Recreation Center accounting change mentioned above reclassifies the reporting of other nonoperating revenues to include the Kansas Army National Guard Recreation Center investment income and related State of Kansas appropriation. See Notes to Financial Statements, Note 16 – Prior Year Adjustment.

Other revenues included the following:

- Capital appropriations decreased \$1.6 million (35%) from \$4.5 million in 2007 to \$2.9 million in 2008. Due to the Kansas Army National Guard Recreation Center restatement, fiscal year 2007 capital appropriations were driven by the State of Kansas appropriation (\$4.2 million) for the construction of the Kansas Army National Guard Recreation Center.
- Capital grants and gifts increased 86% from \$2.4 million to \$4.4 million. The increase in capital gifts received in 2008 was primarily a result of private donations via the Pittsburg State University Foundation for the construction of the Army National Guard Recreation Center totaling \$2.5 million.

Revenues for fiscal year 2008 are displayed in the following graph:



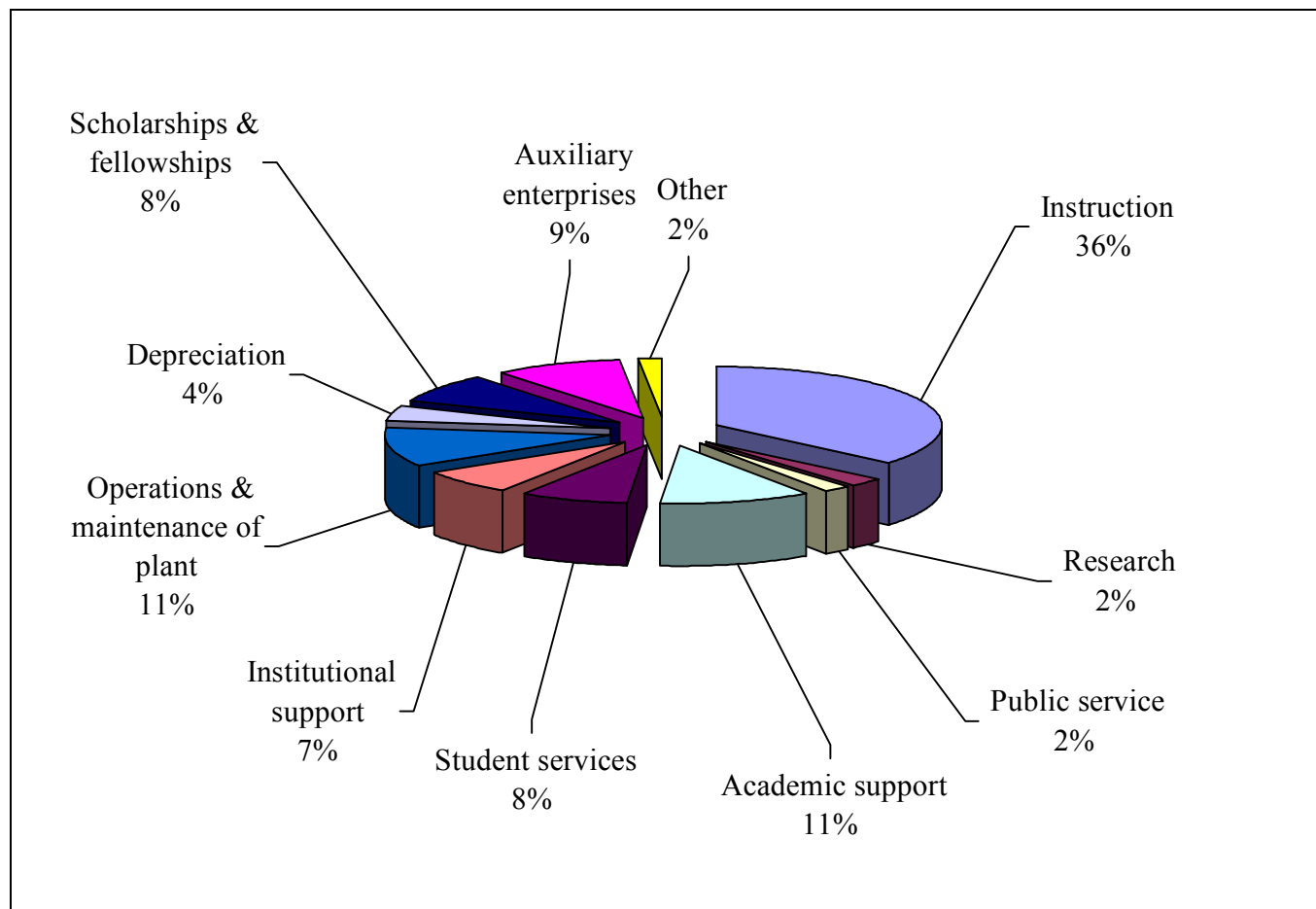
Expenses

Operating expenses were \$86.3 million for the 2008 fiscal year compared to \$81.5 million for the 2007 fiscal year. This was an increase of \$4.8 million or 5.8%. The following is a brief summary of the significant changes:

- Student services were \$6.95 million in 2008, an increase of \$1.15 million (20%) compared to \$5.8 million in 2007. Student service expenses include funds expended for activities beneficial to students and academic programs. Activities include programs provided through the Enrollment Management and Student Success department, various student organizations, and the Kansas Army National Guard Recreation Center.
- Auxiliary enterprise expenses, which include University Housing, Parking Services, Student Health Center, Athletics, and Student Publications, increased 16% from \$7 million in 2007 to \$8.2 million in 2008.
- Other operating expenses decreased \$607,699 (101.5%) to (\$8,630) in 2008. Other operating expenses include a range of activities that varies from year to year. In 2008, the decrease is primarily the result of a decline in 2008 capital encumbrances.

Non-operating expenses consist of interest expense and other nonoperating expenses, which decreased by 4% and increased by 122% respectively. The increase to other nonoperating expenses is driven by the Kansas Army National Guard Recreation Center principal and interest payments to Kansas Development Finance Authority on behalf of the State of Kansas. The stated principal and interest payments are offset by the Kansas Army National Guard Recreation Center investment income and State of Kansas appropriation recorded in other nonoperating revenues. See Notes to Financial Statements, Note 16 – Prior Year Adjustment.

Expenses for fiscal year 2008 are displayed in the following graph:



Extraordinary Items

The University did not have any special and extraordinary items in 2008.

Endowment Expenses Paid On Behalf of the University

The Pittsburg State University Foundation, Inc. is an independent, not-for-profit organization, whose primary mission is to raise funds for the University, provide direct and indirect support to the University that is not entirely reflected in the University's Statement of Revenues, Expenses, and Changes in Net Assets. Expense items paid on behalf of the University by the Foundation include expenses such as travel, supplies, equipment, books, and construction. Total University support provided by the Foundation was approximately \$1.5 million and \$1.3 million in 2008 and 2007, respectively. The Foundation's financial statements are not included in the accompanying financial statements of the University.

Net Assets

Net assets increased by \$8.7 million over the previous fiscal year.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows presents cash receipts and payments of the University during a period of time. Its purpose is to assess the University's ability to generate future net cash flows and meet its obligations as they come due. The following is a condensed statement of cash flows for the years ended June 30, 2008 and 2007:

	June 30, 2008	June 30, 2007
Net cash provided (used) by:		
Operating activities	\$ (33,363,085)	\$ (32,440,285)
Non-capital financing activities	39,400,676	37,290,754
Capital and related financing activities	(4,792,112)	(4,627,866)
Investing activities	1,969,856	(592,503)
Net increase (decrease) in cash	3,215,335	(369,900)
Beginning cash and cash equivalent balances	20,209,645	20,579,545
Ending cash and cash equivalent balances	\$ 23,424,980	\$ 20,209,645

Cash provided by operating activities includes tuition and fees, grant and contract revenues, sales of educational activities and auxiliary enterprises. Cash flows from operating activities will always be negative since GASB requires state appropriations to be reported as cash flows from non-capital financing activities. Cash flows from capital financing activities include all plant funds related long-term debt activities. Cash flows from investing activities show all uses of cash and cash equivalents to purchase investments, and all increases in cash and cash equivalents as a result of selling investments or earning income on cash and investments.

CAPITAL ASSETS

The University continued to invest in capital assets during the 2008 fiscal year. Additional detailed information regarding capital asset additions, retirements and depreciation is available in Note 6 to the financial statements.

The following is a brief summary of the construction projects that were completed during the current fiscal year:

- The Tyler Research Center broke ground in the summer of 2005 and was completed in the fall of 2007. The 22,000 square foot facility is located in Pittsburg's Research and Development Park near the Kansas Technology Center. The facility will accommodate the scientists of the Kansas Polymer Research Center. The project is funded by Revenue Bonds, Series 2005D for \$3 million and private donations.
- The Kansas Army National Guard Armory/Recreation Center construction began in the fall of 2006 and completed in the summer of 2008. The \$15 million, 98,959 square foot building provides academic offices and classrooms for the departments of Health, Physical Education and Recreation, and Military Science/ROTC, a recreation center for students, and an armory for the Kansas Army National Guard. Funding for this project includes State of Kansas capital appropriation for \$4.2 million and private donations.

Additionally the University was involved in construction projects that were under construction or in planning and design phases at year-end:

- The McCray Hall renovation was set to start in the summer of 2008 at a cost of approximately \$2.8 million. The 31,996 square foot deferred maintenance improvement will include new windows, new heating and air system, new tile roof and flashings, restoration of the existing brick/limestone exterior, integration of building controls with the central energy management system, correction of foundation settlement and positive drainage, new electrical service and other utility service upgrades.
- The Student Health Center broke ground the fall of 2008 and is expected to open in the fall of 2009. The \$3 million, new 12,000 square foot facility will provide a central location for medical and behavioral health services for students. Funding for this project will include revenue bonds and private donations.
- The Parking Expansion project is set to start in the summer of 2009. The \$4 million project includes renovating and enlarging the existing gravel lots east of Nation Hall and north of Grubbs Hall. It also includes construction of a new parking lot north of Shirk Hall as well as two new pedestrian plazas on Lindburg Street and Joplin Street.
- The Housing System Maintenance and Improvement project is set to start in the summer of 2009 and is expected to take 3 years. The \$22 million project includes improvements to seven existing student housing facilities and construction of a new student housing facility. The renovation, estimated at \$12 million, will provide new exterior windows; student room doors; exterior entrance, corridor access, and stairwell doors; floor coverings; room built-in cabinetry; ceiling lights; and all wall surface finishes. It also includes reconditioning of restroom and shower/bath facilities and upgrades to two dorms HVAC distribution systems. The construction of a new five building 73,000 square foot student housing complex, estimated at \$10 million, will provide occupancy for approximately 200 residents. The facility will be a modified suite style design featuring clusters of student rooms that include a private or semi-private bath facility and efficiency kitchenettes. The project will be financed by revenue bonds to be repaid from housing revenues.
- The Porter Hall Renovation is set to start in the summer of 2009 at a cost of approximately \$3 million. The 36,956 square foot deferred maintenance improvement will include new heating and air system, new tile roof and flashings, new windows, restoration of existing brick/limestone exterior, integration of building controls with the central energy management system, correction of foundation settlement and positive drainage and upgraded lighting. The project is expected to be completed in the summer of 2010.

DEBT ADMINISTRATION

At June 30, 2008, the University had \$12.7 million in debt outstanding.

Debt was issued in fiscal year 1998 to finance the University Housing System Willard Hall Renovation project and the Horace Mann Building Renovation project, Revenue Bonds Series 1998E and 1998P, totaling \$8,400,000.

Debt was issued in fiscal year 2003 to finance the Overman Student Center project, Revenue Bonds Series 2003 A-1 and A-2 totaling \$2,610,000. The bonds have been assigned a rating of “A” by Standard & Poor’s Ratings Services.

Debt was issued in fiscal year 2004 to finance the Bonita Terrace project, Housing Revenue Bonds Series 2004D for \$1,195,000. The bonds have been assigned a rating of “A-” by Standard & Poor’s Ratings Services.

Debt in the amount of \$3,000,000 was incurred in fiscal year 2005 to finance the Polymer Research Center project, Lease Revenue Bonds Series 2005D. Standard & Poor’s rated the state’s lease revenue bonds “AA” based on a state annual appropriation lease pledge.

No new debt was issued during fiscal year 2008. Subsequent to June 30, 2008, the Kansas Board of Regents authorized the sale of Revenue Bonds not to exceed \$3.75 million for the Student Health center project. The purpose of the project is to pay a portion of the costs of construction and equipping a 12,000 square foot Student Health Center. Bond anticipation notes, Series 2008-3, were issued for \$1.5 million to temporarily fund the construction and project costs.

In 2007, the University reported that new debt, Revenue Bonds, Series 2007 L-2 for \$4,215,000, was issued to partially finance the cost of Kansas Army National Guard Armory/Student Recreation Center. However, the June 30, 2007 financial statements have been restated to reflect an accounting change that reclassifies the stated debt service from Pittsburg State University to the State of Kansas as defined by Kansas Development Finance Authority debt resolution. See Notes to Financial Statements, Note 16 – Prior Year Adjustment.

More detailed information about the University’s noncurrent liabilities is available in Notes 8, 9, and 10 to the financial statements.

ECONOMIC OUTLOOK

In fiscal year 2008, the State of Kansas revenues fell in comparison to fiscal year 2007. This downward trend is expected to continue through fiscal year 2009 as the State continues to face a challenging economy due to the significant declines in the stock, housing, credit and automobile markets.

The State of Kansas provides approximately 39% of the total resources for the University during a fiscal year. Appropriations for fiscal year 2009 are currently set at \$37.2 million, compared to \$35.9 million received for fiscal year 2008, an increase of 3.6%. However, the State has asked the University to prepare for a 3% budget reduction for fiscal year 2009 and an additional 4% reduction for fiscal year 2010.

The University is not aware of any additional currently known facts, decisions, or conditions that are expected to have significant effect on the financial position or results of operations during fiscal year 2009 beyond those unknown variations having a global effect on virtually all types of business operations.

Enrollment for the academic fall 2008 semester continues to exceed prior semesters with 7,127 students enrolled. Enrollment increases are expected to continue for the spring 2009 semester.



PSU celebrated the opening of the Tyler Research Center in September 2007, home to the Kansas Polymer Research Center.



In October 2008, ground was broken for the new Student Health Center. The new facility will house Student Health Services and University Counseling and will open in the fall of 2009.



Students enjoy the benefit of the new Student Recreation Center and Kansas National Guard Armory, a \$15 million, 98,959 sq. ft. facility that is designed to serve as a blend of education and recreational space.

Pittsburg State University
Statement of Net Assets
As Of June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 15,523,925	\$ 14,429,392
Restricted cash and cash equivalents	7,901,055	5,780,253
Accounts receivable, net	767,239	1,194,029
Loans to students, net	580,389	716,414
Inventories	382,561	380,431
Prepaid expenses	416,046	376,480
Total current assets	<u>25,571,215</u>	<u>22,876,999</u>
Noncurrent Assets		
Restricted investments	1,019,468	1,998,480
Loans to students, net	4,037,644	3,700,352
Capital assets, net	93,321,788	86,240,746
Total noncurrent assets	<u>98,378,900</u>	<u>91,939,578</u>
Total Assets	<u>123,950,115</u>	<u>114,816,577</u>
<u>LIABILITIES</u>		
Current Liabilities		
Accounts payable and accrued liabilities	3,496,058	3,472,088
Deferred revenue	4,126,979	3,726,017
Accrued compensated absences	2,223,506	1,898,265
Other postemployment healthcare benefits	607,993	-
Revenue bonds payable - current portion	470,000	430,000
Capital leases payable - current portion	580,202	549,482
Deposits held in custody for others	416,238	355,281
Total current liabilities	<u>11,920,976</u>	<u>10,431,133</u>
Noncurrent Liabilities		
Capital leases payable	5,689,548	6,245,318
Revenue bonds payable	12,235,000	12,705,000
Total noncurrent liabilities	<u>17,924,548</u>	<u>18,950,318</u>
Total Liabilities	<u>29,845,524</u>	<u>29,381,451</u>

Pittsburg State University
Statement of Net Assets
As Of June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	74,196,173	66,156,347
Restricted for		
Expendable		
Scholarships and fellowships	23	1,054
Research	11,939	151,287
Instructional department uses	485,937	726,338
Loans	5,406,382	5,348,312
Capital projects	2,817,214	590,965
Debt services	1,704,541	1,529,582
Other	13,258	1,140,604
Unrestricted	<u>9,469,124</u>	<u>9,790,638</u>
 Total Net Assets	 <u><u>\$ 94,104,591</u></u>	 <u><u>\$ 85,435,127</u></u>

See accompanying notes to financial statements

Pittsburg State University
Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<u>OPERATING REVENUES</u>		
Tuition and fees (net of scholarship allowances of \$4,545,032 and \$4,058,976 in 2008 and 2007, respectively)	\$ 24,240,808	\$ 21,578,177
Federal grants and contracts	7,601,058	7,991,799
State and local grants and contracts	1,690,198	1,530,898
Nongovernmental grants and contracts	873,440	1,349,784
Sales and services of educational departments	1,439,710	1,056,029
Auxiliary enterprises:		
Housing	5,603,678	5,339,037
Parking	450,553	425,167
Health Center	1,273,904	1,157,886
Student Center	1,244,411	1,257,968
Athletics	1,658,520	1,627,769
Student Publications	170,227	171,362
Interest earned on loans to students	95,377	76,629
Other operating revenues	1,403,316	829,967
Total operating revenues	<u>47,745,200</u>	<u>44,392,472</u>
<u>OPERATING EXPENSES</u>		
Educational and General		
Instruction	31,600,882	30,360,785
Research	2,145,501	2,308,124
Public Service	1,907,047	1,899,966
Academic support	9,284,590	8,605,523
Student services	6,950,335	5,807,159
Institutional support	6,024,632	5,440,012
Operations and maintenance of plant	9,430,800	8,779,868
Depreciation	3,788,103	3,449,327
Scholarships and fellowships	6,938,338	7,191,844
Auxiliary enterprises:	-	
Housing	4,111,327	3,783,053
Parking	225,272	219,683
Health Center	1,146,057	1,024,916
Student Center	1,137,888	1,015,420
Athletics	1,419,246	876,031
Student Publications	175,281	162,715
Other	(8,630)	599,069
Total operating expenses	<u>86,276,669</u>	<u>81,523,495</u>
Operating Income (Loss)	<u>(38,531,469)</u>	<u>(37,131,023)</u>

Pittsburg State University
Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
State appropriations	37,797,864	36,009,399
Gifts	1,549,391	1,328,646
Investment income	990,844	386,510
Interest expense	(912,666)	(952,028)
Student fees for capital projects	730,020	719,086
Other nonoperating revenues	234,654	86,800
Other nonoperating expenses	(463,435)	(208,905)
Net nonoperating revenues (expenses)	<u>39,926,672</u>	<u>37,369,508</u>
Income before other revenues, expenses, gains, or losses	1,395,203	238,485
Capital appropriations	2,888,192	4,447,281
Capital grants and gifts	<u>4,386,069</u>	<u>2,358,534</u>
Increase In Net Assets	8,669,464	7,044,300
<u>NET ASSETS</u>		
Net assets - beginning of year	85,435,127	78,390,827
Net assets - end of year	<u><u>\$ 94,104,591</u></u>	<u><u>\$ 85,435,127</u></u>

See accompanying notes to financial statements

Pittsburg State University
Statement of Cash Flows
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 26,577,075	\$ 23,623,294
Sales and services of educational activities	1,436,865	1,048,913
Auxiliary enterprises:		
Housing	1,712,109	1,719,241
Parking	(47,705)	62,195
Health Center	103,092	22,983
Student Center	182,544	272,646
Athletics	198,317	(13,945)
Student Publications	(3,271)	9,260
Grants and contracts	10,666,965	10,665,545
Payments to suppliers	(11,321,506)	(10,793,313)
Payments to utilities	(1,746,390)	(1,670,331)
Compensation & benefits	(53,040,686)	(37,311,870)
Payments for scholarships and fellowships	(9,176,509)	(21,410,614)
Loans issued to students and employees	(964,503)	(872,562)
Collections on loans issued to students and employees	675,767	793,043
Other receipts (payments)	1,384,751	1,415,230
	<u>(33,363,085)</u>	<u>(32,440,285)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	37,797,864	36,009,399
Gifts	1,549,391	1,328,646
Federal family education loan receipts	20,094,862	17,522,268
Federal family education loan disbursements	(20,097,655)	(17,565,688)
Student organization agency transactions	56,214	(3,871)
	<u>39,400,676</u>	<u>37,290,754</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from capital debt	24,313	39,879
Capital appropriations	3,069,000	5,209,000
Capital Grants and gifts	4,386,069	2,358,533
Student fees for capital projects	730,020	719,086
Purchases of capital assets	(11,000,967)	(10,920,758)
Principal paid on capital debt and leases	(987,186)	(982,280)
Interest paid on capital debt and leases	(916,402)	(955,914)
Disposal of asset	-	-
Other	(96,959)	(95,412)
	<u>(4,792,112)</u>	<u>(4,627,866)</u>
Net Cash Flows from Capital Financing Activities	<u>(4,792,112)</u>	<u>(4,627,866)</u>

Pittsburg State University
Statement of Cash Flows
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	979,012	3,132,261
Investment income	990,844	386,510
Purchase of investments	<u>-</u>	<u>(4,111,274)</u>
Net Cash Flows from Investing Activities	<u>1,969,856</u>	<u>(592,503)</u>
Net change in cash and cash equivalents	3,215,335	(369,900)
Cash and cash equivalents-beginning of year	20,209,645	20,579,545
Cash and cash equivalents-end of year	<u>\$ 23,424,980</u>	<u>\$ 20,209,645</u>
 RECONCILIATION		
Operating income (loss)	\$ (38,523,643)	\$ (37,131,024)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	3,788,103	3,449,327
Changes in assets and liabilities:		
Accounts receivable, net	426,788	(246,429)
Loans to students, net	(201,267)	82,400
Inventories	(2,128)	21,290
Prepaid expenses	(39,566)	(3,924)
Accounts payable and accrued liabilities	27,707	821,162
Deferred revenue	220,154	495,405
Accrued compensated absences	325,241	48,823
Other postemployment healthcare benefits	607,993	-
Deposits held in custody for others	<u>7,533</u>	<u>22,685</u>
Net cash used in operating activities	<u>\$ (33,363,085)</u>	<u>\$ (32,440,285)</u>

See accompanying notes to financial statements



Students walk across Cleveland Plaza to the Overman Student Center, a source of daily activity for students on campus.



Students involved with the Alpha Gamma Delta sorority celebrate during Sorority Bid Day, part of the Greek sponsored activities that signal the start of a new school year.



As part of the annual Apple Day convocation, PSU named the 2007-2008 Outstanding Faculty Dr. Daniel Zurek (Biology), Dr. James McAfee (Chemistry) and Dr. Barbara McClaskey (Nursing).

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2008 and 2007

NOTE 1 – Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The financial statements have not been audited.

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Organization. Pittsburg State University is a regional, comprehensive, four-year state university serving the residents of Kansas and the four-state region of Kansas, Missouri, Oklahoma, and Arkansas. The university has an enrollment of more than 7,000 students where students may choose from more than 100 undergraduate and graduate programs within the College of Education, the College of Business, the College of Technology and the College of Arts and Sciences. The University is accredited by the North Central Association of Colleges and Schools, and is governed by the Kansas Board of Regents and is an agency of the State of Kansas. As an agency of the State of Kansas, the University is included in the financial report of the State of Kansas.

Financial Reporting Entity. As required by accounting principles generally accepted in the United States of America, these financial statements present the combined financial position and financial activities of the University. The university has no component units. The financial activity and balances of the Pittsburg State University Foundation are not included in the financial statements of the University as the Foundation is a legally separate entity and the University does not appoint a voting majority of the Association's governing body.

Basis of Accounting. For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Cash Equivalents. For purposes of the statement of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments. The University accounts for its investments at fair value in accordance with GASB Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

Accounts Receivable. Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories. Inventories are carried at cost.

Noncurrent Cash and Investments. Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as noncurrent assets in the Statement of Net Assets.

Capital Assets. Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized if the related project cost exceeds \$100,000. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 25 years for infrastructure and land improvements, 8 years for equipment, and 5 years for vehicles.

PITTSBURG STATE UNIVERSITY
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For the Years Ended June 30, 2008 and 2007

Deferred Revenues. Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include summer school tuition not earned during the current year, amounts received from grant and contract sponsors that have not yet been earned and certain capital appropriations which remain unspent at the end of the fiscal year.

Compensated Absences. Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the Statement of Net Assets, and as an expense in the Statement of Revenues, Expenses, and Changes in Net Assets.

Deposits Held In Custody For Others. Deposits held in custody for others consists primarily of student organizations' moneys administered by the University.

Noncurrent Liabilities. Noncurrent liabilities include principal amounts of revenue bonds payable, capital lease obligations with contractual maturities greater than one year, and estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

Net Assets. The University's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets – expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets – nonexpendable: Restricted nonexpendable net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

Tax Status. As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code; however, income generated from activities unrelated to the University's exempt purpose is subject to income taxes under Internal Revenue Code Section 511(a)(2)(B).

Classification of Revenues. The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as 1) student tuition and fees, net of scholarship discounts and allowances, 2) sales and services of auxiliary enterprises, 3) most federal, state and local grants and contracts, and 4) interest on institutional student loans.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations and investment income.

Scholarship Discounts and Allowances. Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2008 and 2007

NOTE 2 – Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents. The carrying amount of the University's deposits with the State Treasurer and other financial institutions at June 30, 2008 and 2007 were \$23,424,980 and \$20,209,645 respectively. The University's deposits with the State Treasurer are pooled with the funds of other State Agencies and then, in accordance with statutory limitations, placed in short-term investments with the exception of the bond funds. All bond proceeds are invested in conjunction with specifications stated in the bond resolutions.

Investments. The University's total investments at June 30, 2008 and 2007 of \$1,019,468 and \$1,998,480 are administered by the Kansas Development Finance Authority. These monies represent bond proceeds and reserve requirements.

NOTE 3 - Accounts Receivable

Accounts receivable net of estimated uncollectible amounts, consisted of the following at June 30:

	<u>2008</u>	<u>2007</u>
Tuition and Fees	\$ 519,586	\$ 490,470
Auxiliary enterprises	86,849	126,764
Grants & Contracts	135,104	553,325
Other	<u>25,700</u>	<u>23,470</u>
Total	<u>\$ 767,239</u>	<u>\$ 1,194,029</u>

NOTE 4 – Loans to Students

Student loans made through the Federal Perkins Loan and Nursing Student Loan Programs comprise substantially all of the loans to students at June 30, 2008 and 2007. The Perkins Loan Program provides for cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions.

As the University determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2008 and 2007, the allowance for uncollectible loans was estimated to be \$551,740 and \$552,777, respectively.

NOTE 5 – Inventories

Inventories consisted of the following at June 30:

	<u>2008</u>	<u>2007</u>
Physical Plant	\$ 267,039	\$ 244,589
Office Supplies	49,818	56,867
Other	<u>65,704</u>	<u>78,975</u>
Total	<u>\$ 382,561</u>	<u>\$ 380,431</u>

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2008 and 2007

NOTE 6 – Capital Assets

Capital asset activity for the year ended June 30, 2008 and June 30, 2007 are as follows:

	2008			
	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 3,095,828	\$ 919,957	\$ 0	\$ 4,015,785
Land Improvements	3,854,405	179,954	0	4,034,359
Works of Art	666,454	0	0	666,454
Buildings & Improvements	106,571,810	6,463,895	0	113,035,705
Equipment & Furnishings	11,314,954	1,755,246	409,221	12,660,979
Vehicles	1,375,259	594,131	158,457	1,810,934
Software	1,042,946	41,248	184,360	899,834
Total	<u>\$ 127,921,656</u>	<u>\$ 9,954,431</u>	<u>\$ 752,038</u>	<u>\$ 137,124,050</u>
Less accumulated depreciation:				
Land Improvements	1,904,831	150,324	0	2,055,155
Buildings & Improvements	38,424,991	2,527,936	0	40,952,927
Equipment & Furnishings	8,478,545	842,638	406,154	8,915,029
Vehicles	1,194,498	187,108	158,457	1,223,149
Software	<u>530,759</u>	<u>80,095</u>	<u>55,604</u>	<u>555,250</u>
Total accumulated depreciation	<u>50,533,624</u>	<u>3,788,101</u>	<u>620,215</u>	<u>53,701,510</u>
Capital assets, net	<u>\$ 77,388,032</u>	<u>\$ 6,166,330</u>	<u>\$ 131,823</u>	83,422,540
Construction In Progress				<u>9,899,248</u>
				<u>\$ 93,321,788</u>

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
For the Years Ended June 30, 2008 and 2007

	2007			
	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 3,095,828	\$ 0	\$ 0	\$ 3,095,828
Land Improvements	3,677,041	177,364	0	3,854,405
Works of Art	666,454	0	0	666,454
Buildings & Improvements	102,852,353	3,719,457	0	106,571,810
Equipment & Furnishings	11,245,076	614,774	544,896	11,314,954
Vehicles	1,311,935	151,400	88,075	1,375,259
Software	870,912	210,234	38,200	1,042,946
Total	<u>\$ 123,719,599</u>	<u>\$ 4,873,228</u>	<u>\$ 671,171</u>	<u>\$ 127,921,656</u>
Less accumulated depreciation:				
Land Improvements	1,761,704	143,127	0	1,904,831
Buildings & Improvements	36,035,961	2,389,030	0	38,424,991
Equipment & Furnishings	8,253,282	742,984	517,722	8,478,545
Vehicles	1,188,201	94,372	88,075	1,194,498
Software	488,388	78,172	35,800	530,759
Total accumulated depreciation	<u>47,727,537</u>	<u>3,447,685</u>	<u>641,597</u>	<u>50,533,624</u>
Capital assets, net	<u>\$ 75,992,062</u>	<u>\$ 1,425,543</u>	<u>\$ 29,574</u>	77,388,032
Construction In Progress				8,852,714
				<u>\$ 86,240,746</u>

NOTE 7 – Deferred Revenue

Deferred revenues consisted of the following at June 30:

	2008	2007
Tuition and Fees	\$ 1,713,695	\$ 1,578,925
Grants & Contracts	899,502	815,454
Capital Appropriations	1,360,374	1,179,566
Auxiliary enterprises	153,408	152,072
Total	<u>\$ 4,126,979</u>	<u>\$ 3,726,017</u>

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
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NOTE 8 - Changes In Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2008 and June 30, 2007 was as follows:

	2008				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	\$ 13,135,000	\$ 0	\$ 430,000	\$ 12,705,000	\$ 470,000
Lease obligations	6,794,800	31,787	556,837	6,269,750	580,202
Total long-term liabilities	<u>\$ 19,929,800</u>	<u>\$ 31,787</u>	<u>\$ 986,837</u>	<u>\$ 18,974,750</u>	<u>\$ 1,050,202</u>

	2007				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	\$ 13,500,000	\$ 0	\$ 365,000	\$ 13,135,000	\$ 430,000
Lease obligations	7,375,082	39,879	620,161	6,794,800	549,482
Total long-term liabilities	<u>\$ 20,875,082</u>	<u>\$ 39,879</u>	<u>\$ 985,161</u>	<u>\$ 19,929,800</u>	<u>\$ 979,482</u>

Prior year adjustment, see Note 16

NOTE 9 - Revenue Bonds Outstanding

Revenue bonds payable consist of the following:

	Principal Outstanding at 6/30/08
Kansas Development Finance Authority Revenue Bonds - Series E, 1998 (The Board of Regents – Pittsburg State University Housing System Renovation Project – Willard Hall) \$4,750,000 Due in annual installments of \$215,000 to \$340,000. Issued 12/1/98 with a final maturity on 10/1/23. Interest ranging from 3.4% to 4.9% payable semi-annually.	\$ 3,850,000
Kansas Development Finance Authority Revenue Bonds - Series P, 1998 (The Board of Regents – Pittsburg State University Horace Mann Administration Building Renovation Project) \$3,650,000 Due in annual installments of \$250,000 to \$300,000. Issued 12/1/98 with a final maturity on 10/1/18. Interest ranging from 3.0% to 4.85% payable semi-annually.	2,560,000
Kansas Development Finance Authority Revenue Bonds - Series A-1 & A-2, 2003 (The Board of Regents - Pittsburg State University Overman Student Center Project) \$2,610,000 Due in annual installments of \$195,000 to \$205,000. Issued 1/28/03 with a final maturity on 4/1/23. Interest ranging from 1.8% to 5.25% payable semi-annually.	2,155,000

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	Principal Outstanding at 6/30/08
Kansas Development Finance Authority Revenue Bonds – Series D, 2004 (The Board of Regents - Pittsburg State University Housing System Renovation Project – Bonita Terrace) \$1,195,000 Due in annual installments of \$50,000 to \$130,000. Issued 7/14/04 with a final maturity on 10/1/19. Interest ranging from 3.0% to 4.75% payable semi-annually.	1,140,000
Kansas Development Finance Authority Revenue Bonds – Series D, 2005 (The Board of Regents – Pittsburg State University Kansas Polymer Research Center) \$3,000,000 Due in annual installments of \$155,000 to \$850,000. Issued 4/1/06 with a final maturity on 10/1/21. Interest is 5.18% payable semi-annually.	3,000,000
Total	<u>\$ 12,705,000</u>

Prior year adjustment, see Note 16

NOTE 10 - Revenue Bonds Maturity Schedule

Maturities of principal and interest requirements on revenue bonds payable for the year ended June 30, 2008 are as follows:

Year Ending June 30:	Principal	Interest	Total
2009	\$ 470,000	\$ 597,450	\$ 1,067,450
2010	495,000	577,866	1,072,866
2011	520,000	556,386	1,076,386
2012	540,000	533,068	1,073,068
2013	565,000	508,005	1,073,005
2014-2018	3,290,000	2,100,415	5,390,415
2019-2023	6,040,000	808,272	6,848,272
2024-2026	785,000	19,233	804,233
Total	<u>\$ 12,705,000</u>	<u>\$ 5,700,695</u>	<u>\$ 18,405,695</u>

Prior year adjustment, see Note 16

NOTE 11 - Lease Obligations

Pittsburg State University is obligated for the purchase of certain equipment funded through the issuance of blanket financing agreements in the amount of \$6,269,750 and \$6,794,800 as of June 30, 2008 and 2007, respectively. Included in this balance is the \$4.5 million Master Lease Purchase agreement between the University and the State for the University's Energy Performance Contract. The University is responsible for repaying the State for the 20-year term of the lease.

Payments to liquidate these obligations as of June 30, 2008 are scheduled as follows:

Year Ending June 30:	Total
2009	\$ 580,202
2010	554,022
2011	571,526
2012	537,560
2013 and thereafter	4,026,440
Total	<u>\$ 6,269,750</u>

PITTSBURG STATE UNIVERSITY
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NOTE 12 - Retirement Plans

University employees participate in two separate retirement programs. Classified employees participate in the "Kansas Public Employees Retirement System" (KPERs). This defined benefit program is funded through contributions by the University and the individual employees. The University contributed \$724,059 and \$547,141 during fiscal years 2008 and 2007, respectively, and individual employees contributed \$399,157 and \$369,758. Unclassified employees participate in the "Board of Regents Retirement Plan". This defined contribution program is funded through contributions by the University and the individual employees. The University contributed \$2,605,942 and \$2,419,974 during fiscal years 2008 and 2007, respectively, and individual employees contributed \$1,596,758 and \$1,531,706.

NOTE 13 – Other Postemployment Healthcare Benefits

Description. Kansas statute provides that postemployment healthcare benefits be extended to retired employees who have met age and/or service eligibility requirements. The health insurance benefit generally provides the same coverage for retirees and their dependents as for active employees and their dependents. The health insurance benefit plan is a single employer defined benefit plan administered by Kansas Health Policy Authority. The benefit is available for selection at retirement and is extended to retirees and their dependents for life. Non-Medicare participants are subsidized by the State, thus resulting in a liability to the State. The accounting for the health insurance for retirees is included in the State's Self-Insurance Health fund, with the subsidy provided from the Self-Insurance Health fund.

Funding Policy. The University provides health insurance benefits to retirees and their dependents in accordance with Kansas law (K.S.A. 12-5040). Kansas statute, which may be amended by the state legislature, established that participating retirees contribute to the employee group health fund benefits plan, including administrative costs.

The University appropriates funds annually for the costs associated with this retirement benefit and provides funding for the expenditure on a pay-as-you-go basis through the Self Insurance Fund.

Annual OPEB Cost and Net OPEB Obligation. Due to implementation of GAB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (OPEB) in 2008, the University reported \$607,993 for the net OPEB obligation liability. GASB 45 requires accrual-based measurement and recognition of OPEB expenses, such as retiree medical and dental costs, over the employees' years of service, along with the related liability. The University's annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of not to exceed 30 years. The following table presents the components of the University's annual OPEB cost for the year, the University's contribution to the plan, and changes in the University's net OPEB obligation.

Normal cost (with interest)	\$	345,991
Amortization of UAAL		252,289
Interest on amortized liability		9,713
Annual OPEB cost (expense)		607,993
Contributions made		--
Increase in net OPEB obligation		607,993
Net OPEB obligation July 1, 2007		--
Net OPEB obligation June 30, 2008	\$	607,993

PITTSBURG STATE UNIVERSITY
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Schedule of Employer Contributions (for fiscal year ended)

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Net Employer Contributions</u>	<u>Percentage Contributed</u>	<u>End of Year Net OPEB Obligation</u>
2008	\$607,993	\$0	0%	\$607,993

Funded Status and Funding Progress. As of June 30, 2008, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$5,137,853. The University's policy is to fund the benefits on a pay as you go basis, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,137,853. The covered payroll (annual payroll of active employees covered by the plan) was \$45,065,803, and the ratio of the UAAL to the covered payroll was 11 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The valuation includes, for example, assumptions about future employment, mortality and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of employer are subject to continual revision as actual results are compared with the past expectations and new estimates are made about the future. The schedule of funding progress will present in time, multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

Schedule of Funding Progress:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percent of Covered Payroll ((b-a)/c)</u>
6/30/2008	\$0	\$5,137,853	\$5,137,853	0%	\$45,065,803	11%

Actuarial Methods and Assumptions. Projections of benefits for reporting purposes are based on the substantive plan and include the types of benefits provided at the time of valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2008 actuarial valuation, the projected unit credit method was applied. The actuarial assumptions included a 3.85 percent investment rate of return, which is a blended rate of the expected long-term investment returns on the State's pooled funds and investments. The valuation assumed annual healthcare cost trend rates of 5.5 to 10 percent in the first ten years and an ultimate rate of 5.0 percent after ten years. The valuation followed generally accepted actuarial methods and included tests as considered necessary to assure the accuracy of the results. The UAAL is being amortized over a 30 year open period in level dollar amounts.

NOTE 14 - Commitments and Contingent Liabilities

At June 30, 2008 and 2007 the University had outstanding commitments under construction contracts totaling \$5,298,870 and \$6,357,214, respectively.

The University is not a defendant in any lawsuit, nor is it currently involved as a plaintiff in any litigation in State or Federal Court.

PITTSBURG STATE UNIVERSITY
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The University maintains specific insurance coverage as allowed by the State of Kansas and as required by outstanding bond issues. To a large extent, the State follows a policy of self-insurance; therefore, most claims against the University require legislative approval (and potential funding) prior to settlement. The University is not aware of any significant outstanding claims as of June 30, 2008.

The State does not insure buildings and contents valued under \$0.5 million (except where separate coverage is required by bond covenant), and does not insure State-owned automobiles for bodily injury and property damages of State employees. State buildings valued over \$0.5 million are insured against catastrophic loss with a \$5.0 million deductible per occurrence and a maximum annual liability of \$100 million per occurrence.

In the normal course of operations, the University receives grants and other forms of reimbursement from various Federal and State agencies. These activities are subject to audit by agents of the funding authority, the purpose of which is to ensure compliance with conditions precedent to providing of such funds. University officials believe that the liability, if any, for any reimbursement that may arise as the result of audits, would not be material.

NOTE 15 – Natural Classifications With Functional Classifications

The University's operating expenses by functional and natural classification as of June 30, 2008 and June 30, 2007 are as follows:

	2008						
	Compensation & Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Other Operating Expense	Total
Educational and general							
Instruction	\$ 28,904,274	\$	\$ 152	\$ 2,696,456	\$	\$	31,600,882
Research	1,434,781		1,976	708,744			2,145,501
Public service	1,458,759		902	447,386			1,907,047
Academic support	6,480,879			2,803,711			9,284,590
Student services	4,883,027			2,067,308			6,950,335
Institutional support	4,655,310			1,366,540		2,782	6,024,632
Operations and maintenance of plant	6,400,967		1,751,821	1,278,012			9,430,800
Depreciation					3,778,103		3,788,103
Scholarships and fellowships		6,938,338					6,938,338
Auxiliary enterprises:							
Housing	1,570,027		533,662	2,007,638			4,111,327
Parking	110,683			114,589			225,272
Health Center	914,868		5,472	225,717			1,146,057
Student Center	564,233		169,427	404,228			1,137,888
Athletics	149,083			1,270,163			1,419,246
Student Publications	76,015			99,266			175,281
Other				(54,580)		45,950	(8,630)
Total	\$ 57,602,906	\$ 6,938,338	\$ 2,463,412	\$ 15,435,178	\$ 3,788,103	\$ 48,732	\$ 86,276,669

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
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	2007						
	Compensation & Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Other Operating Expense	Total
Educational and general							
Instruction	\$ 27,521,599	\$	\$ 32	\$ 2,839,154	\$	\$	30,360,785
Research	1,456,067		1,588	850,469			2,308,124
Public service	1,337,886		735	561,345			1,899,966
Academic support	5,916,303		146	2,689,074			8,605,523
Student services	4,174,991			1,632,168			5,807,159
Institutional support	4,266,938			1,173,073			5,440,012
Operations and maintenance of plant	5,909,039		1,674,893	1,195,936			8,779,868
Depreciation					3,449,327		3,449,327
Scholarships and fellowships		7,191,844					7,191,844
Auxiliary enterprises:							
Housing	1,439,793		510,420	1,832,840			3,783,053
Parking	101,629			118,054			219,683
Health Center	828,117		5,320	191,479			1,024,916
Student Center	520,779		144,246	350,395			1,015,420
Athletics	117,577			758,454			876,031
Student Publications	70,292			92,423			162,715
Other				536,583		62,486	599,069
Total	\$ 53,661,010	\$ 7,191,844	\$ 2,337,380	\$ 14,821,447	\$ 3,449,327	\$ 62,486	\$ 81,523,495

Prior year adjustment, see Note 16

NOTE 16 – Prior Year Adjustment

The June 30, 2007 Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows have been restated to correctly reflect the accounting change for the debt service liability for Revenue Bonds - 2006 L-2, Pittsburg State University Army National Guard Recreation Center. The accounting change reclassifies the stated debt service from Pittsburg State University to the State of Kansas as defined by Kansas Development Finance Authority debt resolution. The contingent liability for the Kansas Army National Guard Recreation Center bond indebtedness, totaling \$4,215,000, resides with the State of Kansas and will be reported as such.

The prior period adjustment restates revenue bonds payable to capital appropriation to correctly report the funds given to the University from the State of Kansas for the Army National Guard Recreation Center capital project. As stated in the Kansas Army National Guard Recreation Center bond resolution, annual state appropriations will fund the principal and interest payments. The appropriation and subsequent debt service payments will be reported in the Statement of Revenues, Expenses, and Changes in Net Assets as other non-operating revenue and other non-operating expense.

The June 30, 2007 Statement of Revenues, Expenses, and Changes in Net Assets have been restated to correctly reflect the accounting change for the functional classification of scholarships and fellowships operating expenses. Operating expenses have been restated to report all scholarship and fellowship expenses as such, regardless of the fund or functional classification of the unit.

PITTSBURG STATE UNIVERSITY
Notes to Financial Statements
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NOTE 17 – Subsequent Event

Subsequent to June 30, 2008, the Kansas Board of Regents authorized the sale of Revenue Bonds not to exceed \$3.75 million for the Student Health center project. The purpose of the project is to pay a portion of the costs of construction and equipping a 12,000 square foot Student Health Center. Bond anticipation notes, Series 2008-3, were issued for \$1.5 million to temporarily fund the construction and project costs.